

NOTE 4 – DEPOSITS, INVESTMENTS AND RECEIVABLES**Deposits**

The County maintains deposit relationships with several local commercial banks and thrift institutions in addition to its concentration bank. All deposits not covered by the Federal Depository Insurance Corporation (FDIC) are covered by the Public Deposit Protection Commission of the State of Washington (PDPC). The PDPC is a statutory authority established under chapter 39.58 RCW. It constitutes a multiple financial institution collateral pool that can make *pro rata* assessments to all public depositories within the state of up to 10 percent of all their public deposits. There is no current provision for PDPC to make additional *pro rata* assessments if needed to cover a loss. Therefore, in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards, Section 150.110, PDPC protection is of the nature of collateral, not of insurance. Pledged securities under the PDPC collateral pool are held by the County's agent in the name of the County. Some large depositories hold public deposits in amounts in excess of the market value of the entire PDPC collateral pool. To the extent that uninsured public deposits of a financial institution exceed the PDPC's total value, equivalent proportions of the County's deposits in those institutions are exposed to custodial credit risk because they are uninsured and uncollateralized. Determination of these amounts is based on the conservative assumption that none of the excess public deposits is covered by FDIC insurance. Although such risk is recognized, the PDPC provides additional protection by maintaining strict standards as to the amount of public deposits financial institutions can accept, and by monitoring the financial condition of all public depositories and optimizing collateralization requirements.

Custodial credit risk – Deposits The custodial credit risk for deposits is the risk that, in the event of a bank failure, the County's deposits may not be recovered. State statutes require that certificates of deposit be placed in qualified public depositories in the State of Washington and provides that the total deposits cannot exceed the net worth of the financial institution. The County establishes deposit limitations for all financial institutions with which deposits are placed, based on publications by IDC Financial Publishing Company. At year-end, the County has \$845 million of certificates of deposit of which \$745 million (88 percent) were rated "Superior" and \$100 million (12 percent) were rated "Excellent" by IDC. The County's diversification policy limits the maximum amount of investment in certificates of deposit to 20 percent of the total amount of the portfolio and 7.5 percent of a single issuer.

As of December 31, 2007, King County Primary Government's total deposits were \$1.04 billion in carrying amount and \$1.02 billion in bank balance, of which \$506.2 million was exposed to custodial credit risk as uninsured and uncollateralized as shown in the following schedule (in thousands):

	Carrying Amount	Bank Balance	Uninsured and Uncollateralized
Demand Deposits	\$ 48,163	\$ 27,138	\$ 10,751
Money Market Deposits	173,968	173,961	173,759
Certificates of Deposit	816,290	816,290	321,716
Total deposits	<u>\$1,038,421</u>	<u>\$1,017,389</u>	<u>\$ 506,226</u>

The money market deposits are cash held with trustee for four Washington state nonprofit corporations reported in the internal service funds as Building Development and Management Corporations, a blended component unit of King County. The cash held in various financial institutions, including most notably the Bank of New York Trust Company (Trustee), is invested in

NOTE 4 – CONTINUED

United States Government Money Market accounts. Of the \$174 million total money market deposits, \$173.8 million are exposed to custodial credit risk as uninsured and uncollateralized.

Investments

For investment purposes, the County pools the cash balances of County funds and participating component units, and allows for participation by other legally separate entities such as special districts, for which the County is *ex officio* treasurer, and public authorities. The King County Investment Pool (the Pool), administered by the King County Treasury Operations Section, is an external investment pool. The external portion of the Pool (the portion that belongs to special districts and public authorities other than component units) is reported in an Investment Trust Fund. It is County policy to invest all County funds in the Pool. All non-County participation in the Pool is voluntary.

State statutes authorize King County to invest in savings or time accounts in designated qualified public depositories or in certificates, notes, or bonds of the United States. The County is also authorized to invest in other obligations of the United States or its agencies or of any corporation wholly owned by the government of the United States. Statutes also authorize the County to invest in bankers' acceptances purchased on the secondary market, in federal home loan bank notes and bonds, federal land bank bonds and federal national mortgage association notes, debentures and guaranteed certificates of participation or the obligations of any other government-sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the board of governors of the Federal Reserve System. The County can also invest in commercial paper (within the policies established by the State Investment Board); debt instruments of banking institutions, local and state general obligations, and revenue bonds issued by Washington State governments that are rated at least "A" by a nationally recognized rating agency.

The County voluntarily invests in the Washington State Treasurer's Local Government Investment Pool (LGIP). The amount is carried at cost, which approximates fair value. The LGIP is a 2a7-like pool that is overseen by the Office of the State Treasurer, the State Finance Committee, the Local Government Investment Pool Advisory Committee, and the Washington State Auditor's Office. The LGIP also contracts for an annual outside independent audit.

The County is authorized to enter into repurchase and reverse repurchase agreements. The County investment policies require that securities underlying repurchase agreements must have a market value of at least 102 percent of the cost of the repurchase agreement for investment terms of less than 30 days, and 105 percent for terms longer than 30 days. Repurchase agreements in excess of 60 days and reverse repurchase agreements exceeding 180 days are not allowed. Currently, the County's tri-party custodial bank monitors compliance with these provisions. The County has not entered into yield maintenance repurchase agreements.

Reverse Repurchase Agreements Statutes permit the County Investment Pool to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. County policy prohibits the use of these agreements as a borrowing mechanism. The investments under reverse repurchase agreements represent the collateral securities transferred to the lender in exchange for the cash received and used to purchase other securities with the same maturities as the collateral securities, resulting in a matched position. As of December 31, 2007, there were no reverse repurchase agreements outstanding.

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Derivatives The County operates under the GASB's *Codification*, Section 2300.601, definition of derivatives and similar transactions. During the year, the County did not buy, sell, or hold any derivative or similar instrument except for certain US agency collateralized mortgage obligation securities purchased by the King County Investment Pool to enhance investment yield. Although these securities are sensitive to early prepayments by mortgagees, usually resulting from a decline in interest rates, County policies are in place to ensure that only the lowest risk securities of this type are acquired.

External Investment Pool The King County Investment Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company. Oversight is provided by the King County Executive Finance Committee (EFC) pursuant to RCW 36.29.020. The EFC consists of the Chair of the County Council, the County Executive, the Chief Budget Officer, and Director of the Finance and Business Operations Division. All investments are subject to written policies and procedures adopted by the EFC. The EFC reviews pool performance monthly.

All securities are reported at fair value. Fair value reports are prepared monthly and are distributed to all Pool participants. Fair value pricing is provided by the County's security safekeeping bank. If a security is not priced by the County's safekeeping bank, prices are obtained from Bloomberg L.P., a provider of fixed income analytics, market monitors, and security pricing. In 2007, the County also obtained quotes from primary investment dealers to help determine the fair values of impaired investments. The County has not provided or obtained any legally binding guarantees to support the value of the Investment Pool's shares.

The Pool values participants' shares using an amortized cost basis. Monthly income is distributed to participants based on their relative participation during the period. Income is calculated based on: (1) realized investment gains and losses; (2) interest income based on stated rates (both paid and accrued); and (3) the amortization of discounts and premiums on a straight-line basis. Income is reduced by the contractually agreed upon investment fee. This method differs from the fair value method used to value investments in this statement because the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair values. The net change in the fair values of the investments in the Pool are reflected as an increase or decrease in cash and cash equivalents in the statement of net assets. Details of the recognition of unrealized gains or losses are reported in the statements of revenues, expenditures and changes in fund balance – budget and actual.

The Primary Government, excluding the equity in the component units, has a balance of \$3.16 billion in the Investment Pool. The change in the fair value of the total investments for the reporting entity as of December 31, 2007, after considering purchases, sales and maturities, resulted in a net markdown from cost of \$70 million. The following schedule shows the types of investments, including deposits in savings accounts and certificates of deposit, the average interest rate, and the effective duration limits of the various components of the King County Investment Pool as of December 31, 2007 (in thousands):

NOTE 4 – CONTINUED**KING COUNTY INVESTMENT POOL**

Investment Type	Fair Value	Principal	Average Interest Rate	Effective Duration (Yrs)
Savings Accounts	\$ 170,315	\$ 170,315	4.35%	-
Certificates of Deposit	675,000	675,000	5.09%	0.331
Repurchase Agreements	530,000	530,000	4.68%	0.029
Commercial Paper	173,429	256,788	3.26%	0.030
US Agency Discount Notes	1,237,884	1,251,925	4.32%	0.279
Taxable Municipal Notes	47,170	46,785	4.97%	1.275
Taxable Municipal Zero Coupon Notes	19,969	20,525	3.75%	0.607
US Agency Notes	911,951	898,551	5.29%	1.530
US Agency Collateralized Mortgage Obligations	84,885	85,680	4.52%	3.095
State Treasurer's Investment Pool	353,092	353,092	4.56%	0.005
Totals	<u>\$4,203,695</u>	<u>\$ 4,288,661</u>	<u>4.66%</u>	<u>0.552</u>

Impaired Investments As of December 31, 2007, the King County Investment Pool held four commercial paper assets that are impaired and are part of enforcement events where a trustee/receiver is appointed to determine the best options for selling assets and/or restructuring the portfolio. The four impaired investments represent \$207 million or 5 percent of the Pool's total assets. The unrealized loss on these impaired investments is \$83 million and the maximum risk of the loss is \$207 million as of December 31, 2007. The County expects implementation to occur during the second half of 2008.

Interest rate risk – Investments Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Through its investment policy, the County manages its exposure to fair value losses arising from increasing interest rates by setting maturity and effective duration limits for the Pool. The Pool is managed as two subportfolios: the liquidity portfolio and the core portfolio. The liquidity portfolio's average maturity cannot exceed 120 days and is intended to meet the County's short-term liquidity requirements. The total balance of the liquidity portfolio must be at least 15 percent of the total Investment Pool. The core portfolio is managed similar to a short-term fixed-income fund. The average duration of the core portfolio is currently restricted to a range of one and one-quarter to three and one-quarter years. Securities in the core portfolio cannot have an average life greater than five years at purchase. Based on historical and forecasted cash flows, the Executive Finance Committee established the maximum amount that can be invested in the core portfolio. At year-end, this limit was \$2.2 billion and the County was in compliance with this policy. As of December 31, 2007, the combined effective duration of the liquidity and core portfolios was 0.552 years.

Credit risk of Debt Securities Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The County's Investment Pool was rated AAAf at December 31, 2007. In January 2008, the rating of the King County Investment Pool was temporarily suspended by Standard & Poor's pending further information becoming available on the outcome of restructuring proposals associated with each impaired investment. Standard & Poor's took this action because they had not been able to receive timely information about the impaired investments due to the confidential nature of the various enforcement events and related restructuring proceedings. Upon completion of the impaired investment restructurings or removal of the impaired investments from the Pool, the County may re-apply for a Pool rating.

The credit quality distribution below is categorized to display the greatest degree of credit risk as rated by Standard and Poor's, Moody's, or Fitch. For example, a security rated "AAA" by one rating agency and "AA" by another would be listed as "AA." The following table shows the credit quality for all securities in the Pool not backed by the full faith and credit of the United States (in thousands):

NOTE 4 – CONTINUED**Credit Quality Distribution**

Investment Type	AAA or A-1	AA	D	Not Rated	Total
Repurchase Agreements	\$ 530,000	\$ -	\$ -	\$ -	\$ 530,000
Commercial Paper	49,902	-	123,527	-	173,429
US Agency Discount Notes	1,237,884	-	-	-	1,237,884
Taxable Municipal Notes	-	47,170	-	-	47,170
Taxable Municipal Zero Coupon Notes	19,969	-	-	-	19,969
US Agency Notes	911,951	-	-	-	911,951
US Agency Collateralized Mortgage Obligations	84,885	-	-	-	84,885
State Treasurer's Investment Pool	-	-	-	353,092	353,092
TOTAL	\$ 2,834,591	\$47,170	\$123,527	\$ 353,092	\$3,358,380

The King County Investment Pool's policy limits the maximum amount that can be invested in various securities. At year-end, the Pool was in compliance with this policy. The Pool's actual composition consisted of Savings Accounts and Certificates of Deposit–20 percent, Repurchase Agreements–13 percent, Commercial Paper–4 percent, Municipal bonds–2 percent, Agency Securities–51 percent, Agency Mortgage Backed Securities–2 percent and State Treasurer's Investment Pool–8 percent. The table below summarizes the Pool's diversification policy.

OVERVIEW OF KING COUNTY'S INVESTMENT POOL'S POLICIES TO LIMIT INTEREST RATE & CREDIT RISK

Investment Type	Maximum Maturity	Security Type Limit	Single Issuer Limit	Minimum Credit Rating
US Treasury	5 Years	100%	None	N/A
US Federal Agency	5 Years	75%	75%	N/A
US Federal Agency MBS	5 Year WAL	25%	25%	N/A
Certificates of Deposit	5 Years	20%	7.5%	PDPC ⁽¹⁾
Municipal Securities ⁽²⁾	5 Years	20%	5%	A ⁽³⁾
Bank Securities	5 Years	20%	5%	A ⁽³⁾
Repurchase Agreements	60 Days ⁽⁴⁾	40%	10%	Collateral
Commercial Paper	180 Days	25%	5%	A1/P1 ⁽⁵⁾
Bankers' Acceptances	180 Days	25%	10%	Top 50 ⁽⁶⁾
State LGIP ⁽⁷⁾	N/A	None	None	N/A

N/A = Not applicable

(1) Institution must be a Washington State depository. Treasurers can deposit up to 100% of bank's net worth.

(2) Washington state issuers: general obligations and revenue bonds. Other states: only general obligation bonds.

(3) Must be rated "A" or better by two rating agencies.

(4) 102% collateralized, over 30 days 105%.

(5) Must be rated in top credit category by at least two rating agencies. Maturities > 100 days must have "AA" long-term rating. Suspended new purchases of commercial paper in August 2007.

(6) Bankers' acceptances can only be purchased from the 50 largest banks in the world by asset size.

(7) The state investment pool (LGIP) is a money market-like fund managed by the State Treasurer's Office.

Concentration of credit risk – Investments Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year-end the Pool had concentrations greater than 5 percent of the total investment pool portfolio in the following issuers: Federal National Mortgage Association–21 percent, Federal Home Loan Bank–19 percent, Federal Home Loan Mortgage Corporation–13 percent, UBS Financial Services–7 percent, Key Bank, NA–6 percent and Credit Suisse Securities (USA) LLC–6 percent.

Custodial credit risk – Investments Custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. By County policy, all security transactions, including repurchase agreements, are settled "delivery versus payment." This

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means that payment is made simultaneously with the receipt of the security. These securities are delivered to the County's safekeeping bank or its tri-party bank.

Investment Pool's Condensed Statements

The King County Investment Pool's Condensed Statement of Net Assets and Changes in Net Assets as of December 31, 2007, are as follows (in thousands):

Condensed Statement of Net Assets

Assets	\$ 4,212,825
Net assets held in trust for pool participants	<u>\$ 4,212,825</u>
Equity of internal pool participants	\$ 1,785,607
Equity of external pool participants	2,427,218
Total equity	<u>\$ 4,212,825</u>

Condensed Statement of Changes in Net Assets

Net assets - January 1, 2007	\$ 3,606,527
Net change in investments by pool participants	606,298
Net assets - December 31, 2007	<u>\$ 4,212,825</u>

Individual Investment Accounts

King County also purchases individual investments for other legally separate entities, such as special districts and public authorities, that are not part of the financial reporting entity. Net assets in these individual investment accounts are reported in a separate Investment Trust Fund in the Fiduciary Funds section.

Component Units

Harborview Medical Center (HMC) Harborview Medical Center (HMC) participates in the County's investment pool and follows the applicable criteria as described above for the King County Investment Pool deposits and investments.

Custodial credit risk – Deposits The custodial credit risk for deposits is the risk that in the event of a bank failure, the HMC's deposits may not be recovered. HMC maintains demand deposit accounts in various banks (insured up to \$100 thousand per bank) totaling \$23.5 million with a carrying amount of \$23.4 million. In addition, HMC has equity in the Investment Pool – Certificates of Deposit and Investments (reported as cash equivalents on June 30, 2007). HMC's equity in the pool applies the same criteria as the King County Investment Pool to classify the amounts of deposits and investments exposed to custodial credit risk as uninsured and uncollateralized. As of June 30, 2007, HMC's equity in the pool was \$217.3 million and the carrying amount was \$217.8 million, as shown in the following table (in thousands):

NOTE 4 – CONTINUED**Harborview Medical Center**

	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Uninsured and Uncollateralized</u>
Cash in other banks	\$ 23,361	\$ 23,480	\$ 275
Equity in Investment Pool			
Certificates of Deposit	43,789	43,701	17,162
Investments	173,969	173,622	-
Total Equity in Investment Pool	217,758	217,323	17,162
Total	<u>\$ 241,119</u>	<u>\$240,803</u>	<u>\$ 17,437</u>

Washington State Major League Baseball Stadium Public Facilities District (PFD)

The Washington State Major League Baseball Stadium Public Facilities District (PFD) participates in the County's investment pool and follows the applicable criteria as described above for the King County Investment Pool deposits and investments.

Custodial credit risk – Deposits The custodial credit risk for deposits is the risk that in the event of a bank failure, the PFD's deposits may not be recovered. The PFD maintains demand deposit accounts in various banks (insured up to \$100 thousand per bank) totaling \$80 thousand. In addition, the PFD has equity in the Investment Pool – Certificates of Deposit and Investments (reported as cash equivalents on December 31, 2007). The PFD's equity in the pool applies the same criteria as the King County Investment Pool to classify the amounts of deposits and investments exposed to custodial credit risk as uninsured and uncollateralized. As of December 31, 2007, the PFD's equity in the pool was \$11.3 million and the carrying amount was \$11.1 million as shown in the following table (in thousands):

	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Uninsured and Uncollateralized</u>
Cash in other banks	\$ 80	\$ 80	\$ -
Equity in Investment Pool			
Certificates of Deposit	2,228	2,279	895
Investments	8,852	9,056	-
Total Equity in Investment Pool	11,080	11,335	895
Total	<u>\$ 11,160</u>	<u>\$ 11,415</u>	<u>\$ 895</u>

Cultural Development Authority of King County (CDA)

Deposits The Cultural Development Authority of King County (CDA), dba 4Culture, maintains a deposit relationship with a local commercial bank. All deposits with this qualified public depository that are not insured by the Federal Deposit Insurance Corporation (FDIC) are fully collateralized by the Public Deposit Protection Commission of the State of Washington (PDPC); accordingly, the CDA has no custodial credit risk for its deposits. Carrying amounts of deposits for book purposes are materially the same as bank balances.

Investments The CDA does not participate in the County's investment pool. The CDA has an Investment Policy to guide the management of its assets and ensure that all investment activity is within the regulations established by State and County Code. The CDA's Board of Directors

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monitors the investments to ensure compliance with Policy guidelines and reviews the investment performance at least annually.

State statutes authorize the CDA to invest in certificates, notes, or bonds of the United States, and other obligations of the United States or its agencies or any corporation wholly owned by the government of the United States. Statutes also authorize the CDA to invest in bankers' acceptances purchased on the secondary market, federal home loan bank notes and bonds, federal land bank bonds, federal national mortgage association notes and debentures and guaranteed certificates of participation. The CDA is also authorized to invest in the Washington State Local Government Investment Pool (LGIP), which is comparable to a Rule 2a-7 money market fund recognized by the Securities and Exchange Commission. The LGIP funds are limited to high quality obligations with limited maximum and average maturities, with the effect of minimizing both market and credit risk.

The schedule below shows the types of investments, the average interest rate, the effective duration limits and concentration of all CDA investments as of December 31, 2007 (in thousands):

Cultural Development Authority (CDA)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Principal</u>	<u>Average Interest Rate</u>	<u>Effective Duration (Yrs)</u>	<u>Concentration</u>
State Treasurer's Investment Pool	\$ 13,136	\$ 13,136	4.56%	0.003	36%
US Treasury Notes	11,788	11,449	4.19%	3.563	32%
Federal Home Loan Mortgage Corp Debentures	2,948	2,900	5.05%	3.350	8%
Federal National Mortgage Association Notes	7,285	7,142	4.96%	5.428	20%
Federal Home Loan Bank Bonds	1,485	1,456	4.12%	2.980	4%
Totals	<u>\$ 36,642</u>	<u>\$ 36,083</u>	<u>4.54%</u>	<u>2.617</u>	<u>100%</u>

Interest rate risk – Investments Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Through its Investment Policy, the CDA manages its exposure to interest rate risk by setting maturity and effective duration limits for its portfolio. As of December 31, 2007, the combined weighted average effective duration of the CDA's portfolio was 2.617 years.

Credit risk of Debt Securities Credit risk is the risk that an issuer will not fulfill its obligations. As of December 31, 2007, all issuers of investments in the CDA portfolio had a Standard & Poor's rating of "AAA." The Washington State Local Government Investment Pool is not rated.

Concentration of credit risk – Investments Concentration of credit risk is the risk of loss attributed to the magnitude of the CDA's investment in a single issuer. As of December 31, 2007, the CDA had concentrations greater than 5 percent of its total portfolio in the following issuers: Federal National Mortgage Association–20 percent, and Federal Home Loan Mortgage Corporation Debentures–8 percent.

NOTE 4 – CONTINUED**Receivables****Analysis of Estimated Uncollectible Accounts Receivable**

Receivables for governmental funds are reported net of estimated uncollectible amounts in the basic financial statement, Balance Sheet–Governmental Funds. The schedule below shows receivables at gross with the related estimated uncollectible accounts (in thousands):

	General Fund	Public Health Fund	Other Governmental Funds	Total Governmental Funds
Receivables				
Accounts receivable	\$ 75,941	\$ 2,134	\$ 30,384	\$ 108,459
Estimates uncollectible accounts receivable	(67,510)	(18)	(7,529)	(75,057)
Accounts receivable, net	<u>\$ 8,431</u>	<u>\$ 2,116</u>	<u>\$ 22,855</u>	<u>\$ 33,402</u>
Other receivables				
Abatements receivable	\$ -	\$ -	\$ 279	\$ 279
Estimated uncollectible abatements receivable	-	-	(65)	(65)
Assessments receivable - current	-	-	85	85
Assessments receivable - deferred	-	-	71	71
Accrued interest/penalty receivable - delinquent assessments	-	-	2	2
Other receivables, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 372</u>	<u>\$ 372</u>
Due from other governments	\$ 43,230	\$ 19,690	\$ 46,995	\$ 109,915
Estimated uncollectible due from other governments	(264)	(1)	-	(265)
Due from other governments, net	<u>\$ 42,966</u>	<u>\$ 19,689</u>	<u>\$ 46,995</u>	<u>\$ 109,650</u>